

2004 California Forms 593-C, 593-L, and Instructions



Form 593-C, Real Estate Withholding Certificate for Individual Sellers and Form 593-L, Real Estate Withholding – Computation of Estimated Gain or Loss

Use this booklet for real estate sales or transfers closing in 2004.

Form Changes

On Form 593-C, *Real Estate Withholding Certificate for Individual Sellers*, we deleted language that pertains to the exemption for sales of \$100,000 or less. Such sales are automatically exempt from withholding, and the law does not require certification to the exemption.

When withholding is required, the withholding agent will complete Forms 593 and 593-B and send them with the withholding payment to the Franchise Tax Board. Form 593, *Real Estate Withholding Remittance Statement*, and Form 593-B, *Real Estate Withholding Tax Statement*, have replaced Form 597, *Real Estate Withholding Tax Statement*, for sales closing on or after January 1, 2004.

Purpose

When California real estate is sold, $3\frac{1}{3}$ percent of the total sales price must be withheld from the seller and sent to the California Franchise Tax Board (California Revenue and Taxation Code Section 18662).

Withholding of $3\frac{1}{3}$ percent is not required if: the total sales price is \$100,000 or less; the property is being foreclosed upon; or the seller meets certain requirements.

If you are a seller:

- Use Form 593-C, *Real Estate Withholding Certificate for Individual Sellers*, to determine whether you qualify for a full or partial withholding exemption.
- Use Form 593-L, *Real Estate Withholding – Computation of Estimated Gain or Loss*, to determine if you will have a loss or zero gain on the sale.

Note: Only sellers who are individuals or revocable trusts may use Forms 593-C and 593-L. Sellers who are non-individuals (corporations, partnerships, limited liability companies, irrevocable trusts, and estates) must use Form 593-W, *Real Estate Withholding Exemption Certificate and Waiver Request for Non-Individual Sellers*.

Who Must Withhold?

Although the law requires the buyer to withhold, the buyer can request the escrow person to do the withholding. We use the term *withholding agent* throughout these instructions to refer to either the escrow person or the buyer, whoever is taking responsibility for withholding.

What is Real Estate Withholding?

Real estate withholding is:

- A prepayment of estimated income tax due from the gain on a sale of California real estate. If the amount withheld is more than the income tax liability, we will refund the difference when you file a tax return after the end of the year.
- Not an additional tax on the sale of real estate.

Why Do We Withhold?

We withhold to:

- Ensure payment of income tax owed on the taxable gain from the sale.
- Reduce the likelihood of penalties charged to the seller for underpayment of estimated tax.

Withholding Agent Instructions

- Unless the sale qualifies for an automatic exclusion (sales price is \$100,000 or less or the property is being foreclosed upon), provide Forms 593-C and 593-L with instructions to each seller as soon as escrow opens. We update our forms and instructions annually, so please make certain you use the correct form. The year on the form should be the year that escrow will close.
- Instruct the seller to complete and sign Form 593-C, then return it to you by the close of escrow.
 - ☐ If the seller checked "YES" to **any** item in **Part II**, the seller is exempt from withholding. You are relieved of the real estate withholding requirements if you rely in good faith on the completed and signed form, certifying an exemption from withholding.
 - ☐ If the seller checked "YES" to **any** item in **Part III**, the seller may qualify for a partial or complete withholding exemption. Read the notes following the questions to determine any additional requirements.
 - ☐ If the seller checked "NO" to **all** of the items in Part II and Part III, you must withhold 3 $\frac{1}{3}$ percent of the total sales price.
 - ☐ If the seller does not return the completed Form 593-C by the close of escrow, you must withhold 3 $\frac{1}{3}$ percent of the total sales price.
- If you must withhold, complete Form 593-B, *Real Estate Withholding Tax Statement*, for each seller that was withheld upon. Give two copies of Form 593-B to the seller. After the close of the month, attach one copy of all of the Forms 593-B completed during the month to Form 593, *Real Estate Withholding Remittance Statement*, and mail it to us with the total amount withheld for all transactions that closed during the month. Forms 593 and 593-B, and the withholding payment are due to the Franchise Tax Board by the 20th day of the month following the month that escrow closed.

Note: Form 597, *Real Estate Withholding Tax Statement*, has been replaced with Forms 593 and 593-B for sales closing on or after January 1, 2004. Withholding should now be remitted monthly for all escrows that closed during the calendar month. Please see Forms 593 and 593-B for further instructions.
- **Do not** send Forms 593-C or 593-L to the Franchise Tax Board. You should retain Form 593-C for five years following the close of the transaction. You must furnish the form to the FTB upon request. Usually the seller will retain Form 593-L. However, if the seller gives you Form 593-L, you should also retain it for five years.

Contacting the Franchise Tax Board

TO ORDER CALIFORNIA TAX FORMS

By Internet: You can view, download, and print California income tax forms and publications from our Website at:

www.ftb.ca.gov

By automated phone service: Use this service to order California tax forms and current year federal forms. Have a paper and pencil ready to take notes.

From within the United States (800) 338-0505

From outside the United States (not toll-free) (916) 845-6600

Follow the recorded instructions. This service is available 24 hours a day, seven days a week.

By mail: Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order. Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

In person: Many California libraries, post offices, and banks provide free California personal income tax booklets during the filing season. Most libraries and some quick-print businesses have forms and schedules for you to photocopy (a nominal fee may apply). **Note:** Employees at libraries, post offices, banks, and quick-print businesses cannot provide tax information or assistance.

CONTACT US WITH REAL ESTATE WITHHOLDING QUESTIONS

(888) 792-4900 or (916) 845-4900 (not toll-free)

Telephone assistance is available from 8 a.m. until 5 p.m. Monday through Friday. We may modify these hours without notice to meet operational needs.

TELEPHONE AND INTERNET ASSISTANCE

(For state income tax issues unrelated to real estate withholding)

From within the United States (800) 852-5711

From outside the United States (not toll-free) (916) 845-6500

Website at: **www.ftb.ca.gov**

Assistance for persons with disabilities: We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments, please call TTY/TDD (800) 822-6268.

ASISTENCIA TELEFONICA Y EN EL INTERNET

Dentro de los Estados Unidos, llame al (800) 852-5711

Fuera de los Estados Unidos, llame al (cargos aplican) (916) 845-6500

Sitio en el Internet: **www.ftb.ca.gov**

Asistencia para personas discapacitadas: Nosotros estamos en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos pueden llamar al TTY/TDD (800) 822-6268.

Instructions for Form 593-C

Withholding Exemption Certificate

Purpose

Use this form to determine if you meet any of the exemptions to withholding. Only sellers who are individuals (including individuals, who are grantors of revocable trusts) may use this form. Sellers, who are not individuals, must use Form 593-W, *Real Estate Withholding Exemption Certificate and Waiver Request for Non-Individual Sellers*.

Note: Qualifying for an exemption from withholding or being withheld upon does not relieve you of your obligation to file a California tax return and pay any tax due on the sale of the California real estate.

Part I Seller's Information

Name, Address, and Taxpayer Identification Number

Enter the name, address, and tax identification number of the seller or other transferor. If the seller is an individual, enter the Social Security Number (SSN). If the sellers are husband and wife and plan to file a joint return, enter the name and SSN for each spouse. Otherwise, do not enter information for more than one seller. Instead, complete a separate Form 593-C for each seller.

If the seller is a revocable trust, enter the grantor's individual name and SSN. For tax purposes, the revocable trust is transparent and the individual seller must report the sale and claim the withholding on their individual tax return.

Ownership Percentage

Enter your ownership percentage rounded to two decimal places (e.g. 66.67%). If you are on title for incidental purposes and you have no financial ownership, enter 0.00 and skip to Part IV. You will not be withheld upon.

Examples of sellers who are on title for incidental purposes are:

- Co-signors on title (e.g., parents co-signed to help their child qualify for the loan).
- Family members on title to receive property upon the owner's death.

Part II Certifications That Fully Exempt Withholding

Line 1 – Principal Residence

To qualify as your principal residence under Internal Revenue Code (IRC) Section 121, you generally must have owned and lived in the property as your main home for at least two years during the five-year period ending on the date of sale.

You can only have one main home at a time. If you have two homes and live in both of them, the main home is the one you lived in most of the time.

There are exceptions to the two-year rule if the primary reason you are selling the home is for a change in the place of employment, health, or unforeseen circumstances such as death, divorce, or loss of job, etc. For more information about what qualifies as your principal residence or exceptions to the two-year rule, get IRS Publication 523, *Selling Your Home*. You can get this publication by accessing the Internal Revenue Service's Website at www.irs.gov, or by calling the IRS at (800) 829-3676.

Line 2 – Loss or Zero Gain

You have a loss or zero gain for California income tax purposes when the amount realized is less than or equal to your adjusted basis. **You must complete Form 593-L, *Real Estate Withholding — Computation of Estimated Gain or Loss*, and have a loss or zero gain on line 16 to certify that you have a loss or zero gain on this sale.**

You may not certify that you have a net loss or zero gain just because you do not receive any proceeds from the sale or because you feel you are selling the property for less than what it is worth.

Line 3 – Involuntary Conversion

The property is being involuntarily or compulsorily converted when:

- The California real property is transferred because it was (or threatened to be) seized, destroyed, or condemned within the meaning of IRC Section 1033, and
- The transferor (seller) intends to acquire property that is similar or related in service or use in order to be eligible for nonrecognition of gain for California income tax purposes.

Get IRS Publication 544, *Sales and Other Dispositions of Assets*, for more information about involuntary conversions.

Line 4 – Exchanged for Stock or Partnership Interest

The transfer must qualify for nonrecognition treatment under IRC Section 351 (transferring to a corporation controlled by transferor) or IRC Section 721 (contributing to a partnership in exchange for a partnership interest).

Part III Certifications That May Partially or Fully Exempt Withholding

Complete Part III only if you did not meet any of the exemptions in Part II. If you met an exemption in Part II, skip to Part IV.

Line 5 – Simultaneous Exchange

If the California real property is part of a simultaneous like-kind exchange within the meaning of IRC Section 1031, the transfer is exempt from withholding. However, if the seller receives any proceeds (boot) from the sale, the withholding agent must withhold on that amount.

Line 6 – Deferred Exchange

If the California real property is part of a deferred like-kind exchange within the meaning of IRC Section 1031, the sale is exempt from withholding at the time of the initial transfer. However, if the seller receives any proceeds (boot) from the sale, the withholding agent must withhold on that amount.

The intermediary or accommodator must withhold on any cash or cash equivalent (boot) it distributes to the seller. If the exchange does not take place or if the exchange does not qualify for nonrecognition treatment, the intermediary or accommodator must withhold 3 1/3 percent of the total sales price.

Line 7 – Installment Sale

Withholding is required on the total sales price even if the sale is being completed as an installment sale. However, the buyer may agree to withhold on each principal payment instead of withholding the full amount at the time of sale. **The buyer must complete Form 593-I, *Real Estate Withholding Installment Sale Agreement* to defer any of the withholding.**

Part IV Seller's Signature

You must sign this form and return it to your escrow officer by the close of escrow for it to be valid. Otherwise, the withholding agent must withhold the full 3 1/3 percent of the total sales price.

Any transferor (seller) who, for the purpose of avoiding the withholding requirements, knowingly executes a false certificate is liable for a penalty of \$1,000 or 20 percent of the required withholding amount, whichever is greater.

2004

Real Estate Withholding Certificate for Individual Sellers

593-C

Part I – Seller's Information

Name (including spouse, if applicable - see instructions - type or print)

Address

Private Mailbox no.

City, State, ZIP Code

Property address (if no street address, provide parcel number and county)

Return this form to your escrow company.

Social Security Number (SSN)

— —

Spouse's SSN (if applicable)

— —

Note: If you do not furnish your tax ID number this certificate is void.

Daytime Number

()

Ownership Percentage

%

Read the following and check the appropriate boxes. (See line-by-line notes in the instructions.)

Part II – Certifications which fully exempt the sale from withholding:

YES NO

- Does the property qualify as the seller's principal residence within the meaning of Internal Revenue Code (IRC) Section 121? ☐ ☐
- Will the seller have a loss or zero gain for California income tax purposes on this sale? (To check "YES", you must complete Form 593-L, *Real Estate Withholding — Computation of Estimated Gain or Loss*, and have a loss or zero gain on line 16.) ☐ ☐
- Is the property being compulsorily or involuntarily converted and does the seller intend to acquire property that is similar or related in service or use to qualify for nonrecognition of gain for California income tax purposes under IRC Section 1033? ☐ ☐
- Will the transfer qualify for nonrecognition treatment under IRC Section 351 (transfer to a corporation controlled by the transferor) or IRC Section 721 (contribution to a partnership in exchange for a partnership interest)? ☐ ☐

Part III – Certifications that may partially or fully exempt the sale from withholding:

- Will the transfer qualify as a simultaneous like-kind exchange within the meaning of IRC Section 1031? ☐ ☐
Escrow Officer: If the seller checked "YES," withholding is still required on any proceeds disbursed to the seller from escrow.
- Will the transfer qualify as a deferred like-kind exchange within the meaning of IRC Section 1031? ☐ ☐
Note: The intermediary or accommodator is required to withhold on any boot (cash or cash equivalent) it distributes to the seller. If the exchange does not take place, or if the exchange does not qualify for nonrecognition treatment, the intermediary or accommodator will withhold 3 1/3 percent of the total sales price.
- Will the transfer of this property be an installment sale that you will report as such for California tax purposes and has the buyer agreed to withhold on each principal payment instead of withholding the full amount at the time of transfer? ☐ ☐
Escrow Officer: If the seller checked "YES," withholding should be reduced to 3 1/3 percent of the down payment only if the buyer has completed and signed Form 593-I, *Real Estate Withholding Installment Sale Agreement*. Form 593-I must be attached to Form 593-B, *Real Estate Withholding Tax Statement*, when you send the withholding to the Franchise Tax Board.

Part IV – Seller's Signature

Under penalties of perjury, I hereby certify that the information provided above is, to the best of my knowledge, true and correct. If conditions change, I will promptly inform the withholding agent. I understand that completing this form does **not** exempt me from filing a California income or franchise tax return to report this sale.

Seller's name (type or print) _____

Seller's signature _____ Date: _____

Spouse's name (if applicable) _____

Spouse's signature (if applicable) _____ Date: _____

Seller: If you checked "YES" to **any** question in Part II, you are exempt from real estate withholding.If you checked "YES" to **any** question in Part III, you may qualify for a partial or complete withholding exemption.If you checked "NO" to **all** of the questions in Part II and Part III, the withholding will be 3 1/3 percent of the total sales price.If you are withheld upon, the withholding agent should give you two copies of Form 593-B, *Real Estate Withholding Tax Statement*. Attach one copy to the lower front of your California income tax return and keep the other copy for your records.

Withholding Agent: If you must withhold, complete Form 593-B, *Real Estate Withholding Tax Statement*, give two copies to the seller, and send one copy to the Franchise Tax Board with the withholding payment and Form 593, *Real Estate Withholding Remittance Statement*. Refer to Form 593 and Form 593-B instructions for more information.

2004**Real Estate Withholding —
Computation of Estimated Gain or Loss****593-L**

(You are required to complete this form only if you think you may certify a loss on Form 593-C.)

Property address (if no street address, provide parcel number and county)

- 1 Selling price** **1** _____
- 2 Selling expenses (optional)** **2** _____
- 3 Amount You Will Realize** for withholding purposes. Subtract line 2 from line 1 **3** _____
- 4** Enter the price you paid to purchase the property (If you acquired the property other than by purchase, see Table 1 to determine your basis.) **4** _____
- 5 Seller-paid points** **5** _____
- 6 Depreciation** **6** _____
- 7 Other decreases to basis** **7** _____
- 8 Total Decreases to Basis.** Add line 5 through line 7 **8** _____
- 9 Subtract line 8 from line 4** **9** _____
- 10 Cost of additions and improvements (optional)** **10** _____
- 11 Other increases to basis (optional)** **11** _____
- 12 Total Increases to Basis.** Add line 10 and line 11 **12** _____
- 13 Adjusted Basis** for withholding purposes. Add line 9 and line 12 **13** _____
- 14 Enter any suspended passive activity losses from this property (optional)** **14** _____
- 15 Add line 13 and line 14** **15** _____
- 16** If line 3 is **less than** line 15, subtract line 3 from line 15. If line 3 is **equal to** line 15, enter zero. You have a **loss** or zero gain for withholding purposes. Skip line 17. Complete the Seller's Signature area below and check the "YES" box on Form 593-C, line 2 **16** _____
- 17** If line 3 is **more than** line 15, subtract line 15 from line 3. You have a **gain** for withholding purposes. You must check the "NO" box on Form 593-C, line 2. Escrow will withhold 3 1/3 percent of the total sales price **17** _____

Seller's Signature

Under penalties of perjury, I hereby certify that the information provided above is, to the best of my knowledge, true and correct in that any estimated loss calculated is no greater than the loss that I will recognize on my California tax return for this tax year. If conditions change, I will promptly inform the withholding agent. I understand that completing this form does **not** exempt me from filing a California income tax return to report this sale.

Seller's name (type or print) _____

Seller's signature _____ Date: _____

Spouse's name (if applicable) _____

Spouse's signature (if applicable) _____ Date: _____

Instructions for Form 593-L

Real Estate Withholding – Computation of Estimated Gain or Loss

Purpose

Use this form if you believe you may have a loss on the sale of your property for California income tax purposes.

This form is used for sales closing in 2004. It allows you to make either a detailed or a simplified calculation of your gain or loss for withholding purposes. The lines shown as “(optional)” do not need to be completed. If you first complete the form without using the optional fields and show a small gain, it may be to your benefit to complete the “optional” fields.

Caution: You may use estimates when you complete this form, but the estimates must not result in the calculation of a loss when actually you have a gain. Any transferor (seller) who, for the purpose of avoiding the withholding requirements, knowingly executes a false certificate is liable for a penalty of \$1,000 or 20 percent of the required withholding amount, whichever is greater.

Note: The computations on Form 593-L are strictly for the limited purpose of calculating withholding only.

Who can complete this form?

The seller should complete this form. Do not ask your title company, escrow officer, real estate licensee, or exchange accommodator to complete this form. You are strongly advised to contact a tax professional if you need help completing this form.

How can you get IRS publications?

Internet: www.irs.gov
Phone: (800) 829-1040
Mail: Western Area Distribution Center
Rancho Cordova, CA 95743-0001

Line-by-Line Instructions

Line 1 – Selling Price

The selling price is the total amount you will receive for your property. It includes money, as well as, all notes, mortgages, or other debts assumed by the buyer as part of the sale, plus the fair market value of any other property or any services you receive.

Line 2 – Selling Expenses (optional)

Selling expenses include commissions, advertising fees, legal fees, and loan charges that will be paid by the seller, such as loan placement fees or points.

Line 3 – Amount Realized

The amount realized is the selling price minus the selling expenses.

Line 4 – Purchase Price

If you acquired this property by purchase, enter your purchase price. Your purchase price includes the down payment and any debt you incurred; such as a first or second mortgage or promissory notes you gave the seller in payment for the property. If you acquired the property by gift, inheritance, exchange, or any way other than purchase, see Table 1.

Line 5 – Seller-Paid Points

Points are charges paid to obtain a loan. They may also be called loan origination fees, maximum loan charges, loan discount, or discount points. If the seller paid points for you when you acquired the property, enter the amount paid by the seller on your behalf on line 5, unless you already subtracted this item to arrive at the amount for line 4.

Line 6 – Depreciation

Enter the amount of depreciation you deducted, or could have deducted, on your California income tax returns for business or

investment use of the property under the method of depreciation you chose. If you took less depreciation on your tax return than you could have under the method chosen, you must enter the amount you could have taken under that method. If you did not take a depreciation deduction, enter the full amount of depreciation you could have taken. Get IRS Publication 946, *How to Depreciate Property*, if you need more information.

Depreciation Option – If you do not know how much depreciation you deducted or were allowed, you can make an estimate of the amount of depreciation (for withholding purposes only). To estimate the depreciation, divide the purchase price plus the cost of additions and improvements by 27.5 and multiply that by the number of years you used the property for business use (up to 27.5 years).

Example: Mary bought a house 20 years ago for \$150,000 and has used it as a rental property for the last 18 years. Prior to renting the house, she added a pool which cost her \$25,000. Mary's depreciation is estimated as follows:

Cost	\$150,000
Plus additions	25,000
Total	175,000
Divided by 27.5 =	6,364
Multiply by 18 years =	\$114,552

Mary's estimated depreciation to enter on line 6 would be \$114,552.

Line 7 – Other Decreases to Basis

Include any other amounts that decrease your basis, such as:

- Casualty or theft loss deductions and insurance reimbursements;
- Energy credits claimed for the cost of energy improvements added to your basis; or,
- Payments received for granting an easement or right-of-way.

Line 10 – Additions and Improvements (optional)

These add to the value of your property, prolong its useful life, or adapt it to new uses. Examples include: room additions, landscaping, new roof, insulation, new furnace or air conditioner, remodeling, etc. The cost of repairs may not be included unless they are part of an extensive remodeling or restoration project. Do not include any additions or improvements on line 10 that were included on line 4.

Line 11 – Other Increases to Basis (optional)

Include the amounts paid for any other items that increase the basis of the property, such as:

- Settlement fees and closing costs you incurred when you bought the property;
- The amount you paid for special assessments for items such as water connections, paving roads, and building ditches; or,
- The cost of restoring damaged property from a casualty loss, or cost of extending utility service lines to the property.

Line 14 – Passive Activity Losses (optional)

You may only use suspended passive activity losses that directly relate to the property being sold. Other losses such as net operating losses, capital loss carry-forwards, stock losses, and passive activity losses from other properties cannot be used.

Line 16 – Loss For Withholding Purposes

If the amount you will realize (line 3) is less than line 15, the difference is your loss on the sale for withholding purposes. (If line 3 is equal to line 15, you have a zero gain.) Check the "YES" box on Form 593-C, line 2. Sign Form 593-C and give it to your escrow officer. You will not be subject to withholding on this sale. Keep Form 593-L for 5 years to document your calculations.

Line 17 – Gain For Withholding Purposes

If the amount you will realize (line 3) is more than the amount on line 15, the difference is your gain on the sale for withholding purposes. You must check the "NO" box on Form 593-C, line 2. You will be subject to the full 3¹/₃ percent withholding on the total selling price.

Table 1. How to Complete Form 593-L When You Did Not Purchase the Property

The cost or purchase price of property is usually its basis for figuring gain or loss from its sale or other disposition. However, if you acquired the property by gift, inheritance, exchange, or in some way other than purchase, you must use a basis other than its cost. (**Note:** These procedures only reflect the general rules. Exceptions may apply. Get IRS Publication 551, *Basis of Assets*, for more information on these or other special situations.)

Property was received as a gift	Usually, your basis is the donor's adjusted basis at the time of the gift. Enter the donor's adjusted basis on line 4. Then complete the rest of the form (except line 5) with your information after you received the property. Note: If the fair market value of the property at the time of the gift was less than the donor's adjusted basis, get IRS Publication 551 to determine your basis.
Property was inherited from someone other than your spouse	Usually, your basis is the fair market value at the date of the individual's death. You can get that valuation from probate documents, or if there was no probate, use the appraised value at the date of death. Enter the fair market value on line 4. Then complete the rest of the form (except line 5) with your information after you received the property. Note: If you or your spouse originally gave the property to the decedent within one year of the decedent's death, get IRS Publication 551 to determine your basis.
You owned the property (as community property) with your spouse who died	Your basis is the fair market value of the total property at the date of your spouse's death. Enter the fair market value on line 4. Then complete the rest of the form (except line 5) with your information after the date of death.
You owned the property (in joint tenancy) with your spouse who died	Your basis is the sum of: 1) the <u>fair market value</u> of your spouse's half of the property at the date of the spouse's death; and, 2) the <u>existing basis</u> of your half of the property at the date of your spouse's death. Enter the sum on line 4. Then complete the rest of the form (except line 5) with your information after the date of death.
Property received from your spouse incident to your divorce	Usually, your basis is the same as it would have been without this transfer. Complete Form 593-L as if you had been the only owner before and after the transfer. Note: If your spouse transferred the property to you before July 18, 1984, get IRS Publication 551 to determine your basis.
Property received in exchange for other property	Your basis will depend on whether you received the property in a nontaxable, taxable, or partially taxable exchange. Get IRS Publication 551 to determine your basis. Enter your basis on line 4. Then complete the rest of the form. However, do not include any amounts on line 5 through line 10 that you included on line 4.
You built the house (or other improvements) on the property being sold	Add the purchase price of the land and the cost of the building. Enter the total on line 4 and complete the rest of the form. Note: If you deferred the gain from a previous home to this property, get IRS Publication 551.
You received the property in a foreclosure	Enter your basis in the property after the foreclosure on line 4. (You may need to get a tax professional to help you with this calculation.) Then complete the rest of the form (except for line 5) with your information after the foreclosure.